COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A JOINT APPLICATION FOR THE APPROVAL OF DEMAND-SIDE MANAGEMENT PROGRAMS, A DSM COST RECOVERY MECHANISM, AND A CONTINUING COLLABORATIVE PROCESS ON DSM FOR LOUISVILLE GAS AND ELECTRIC COMPANY	)	CASE NO. 93-150

O R D E R

On December 1, 1995, Louisville Gas and Electric Company ("LG&E"); the Attorney General; Jefferson County, Kentucky; Metro Human Needs Alliance; People Organized and Working for Energy Reform; Anna Shed; Kentucky Industrial Utility Customers; Louisville Resources Conservation Council; and the Louisville and Jefferson County Community Action Agencies, collectively the members of the LG&E Demand-Side Management Collaborative (the "Collaborative") tendered for filing a joint application requesting Commission approval of: (1) changes to the Collaborative's existing demand-side management ("DSM") programs; (2) recovery of the costs resulting from changes to the existing DSM programs; (3) seven new DSM programs which were proposed in the Collaborative's 1996 DSM Program Plan ("1996 DSM Plan"); (4) recovery of the costs associated with the new DSM programs; and (5) proposed schedules and procedures for the Collaborative's submission and approval of future DSM filings. New DSM tariffs were proposed for LG&E, which reflect the proposed program changes and additional cost recovery. These were suspended for five months, through June 30, 1996.

The joint application requests that existing programs be modified in the following manner: (1) amend the eligibility requirements for the Experimental Energy Conservation Rate ("EECR") to allow participation by households receiving housing subsidies that pay their utility bills directly to LG&E; (2) establish two enrollment periods during the course of a calendar year for the EECR compared to the one enrollment period that was established when the EECR was initially approved; (3) establish an initial expenditure budget for the EECR; and (4) expand the Commercial Conservation Program ("CCP") to include design audits for new construction, increase the number of audits to be provided to customers, recognize the increased cost of audits compared to the Collaborative's original estimate, and implement financing to assist in the installation of energy efficiency measures.

The 1996 DSM Plan includes seven new programs for which the Collaborative seeks Commission approval. These programs are identified as follows:

(1) Program Development and Administration

(2) Residential Load Management Program

(3) Residential New Construction Program

(4) Residential Energy Efficiency Product Program

(5) Residential Financing Program

(6) Residential Bill Redesign Program

(7) Commercial Not-For-Profit Program

The Collaborative requests that these seven new programs be included for cost recovery under the DSM Cost Recovery Mechanism ("DSMCRM") previously approved herein. The Collaborative also requests approval of a procedural schedule for filing future DSM documents and reports. Under the proposed schedule the Collaborative would file an annual program document, similar to the 1996 DSM Plan, by November 1st of a given year, that requests Commission action on changes, additions, or deletions to the existing DSM plan for the following calendar year. The Collaborative would file an annual program status report and evaluation document by no later than March 1st of each year that would report on the Collaborative's efforts for the prior calendar year and provide a process and impact evaluation of all programs, where appropriate.[1]

The Collaborative provided additional information in support of the 1996 DSM Plan in the form of written responses to the Commission's data requests of January 5 and March 15, 1996. An informal conference on the Collaborative's request for approval of the changes and proposals included in the joint application and the 1996 DSM Plan was held on January 22, 1996. A public hearing on the matter was held on May 22, 1996, and the information requested at the hearing has been filed with the Commission.

BACKGROUND

On November 12, 1993, the Commission approved, on a three-year experimental basis, the Collaborative's original joint application which included, among other things, the Collaborative's Principles of Agreement ("Agreement"), a DSM cost-recovery mechanism, and three initial DSM programs. While noting the broad spectrum of individuals entering into the Agreement, the Commission indicated that it had misgivings and concerns about certain aspects of the Agreement. However, the Commission granted its approval upon finding that the Agreement had the necessary flexibility to address those concerns during

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1 The exception to this filing schedule, according to the Collaborative's response to Item 28 of the Commission's Order of January 5, 1996, is the evaluation reports for the initial programs which will be filed in November of 1996.

and at the end of the pilot program. To satisfy some of those concerns the Commission stated that it expected future DSM programs to be screened by cost/benefit tests.[2]

CURRENT ISSUES

New Programs

The Collaborative now proposes seven new DSM programs. However, only one of those programs, Residential Load Management, was subjected to individual cost/benefit screening.[3] The Collaborative indicated that the remainder of the new programs were selected based on: (1) their value to LG&E's customers; (2) their market-based approach to DSM; and (3) their low cost relative to more traditional incentive and rebate-driven DSM programs. After an initial review of the application, the Commission entered an Order on January 31, 1996, citing the lack of cost/benefit screening for the remainder of the new programs as the primary reason for suspending the proposed tariffs. Subsequent to that Order the Collaborative submitted cost/benefit screening results for the six new programs not previously screened.[4]

The representations of the Collaborative concerning the proposed programs' value to customers, coupled with the programs' low costs and the results of the late-filed

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2 The initial programs had not been subject to cost/benefit screening; however, the terms of the Agreement indicated that such screening would be performed as part of the selection process for new programs.

3 A combined screening of the seven new programs was performed. The Collaborative indicated that it considered this to be in compliance with the terms of its Agreement. The Collaborative also indicated that the proposed programs, except for Residential Load Management, were not selected based upon cost/benefit screening.

4 See Collaborative's Supplemental Data Response of March 4, 1996.

cost/benefit screening, persuade the Commission that the programs are generally reasonable and should be approved, with the exception of the Residential Bill Redesign. While the Bill Redesign's stated purpose of communicating price signals is valid, the Commission finds that it should not be included for cost recovery under the Collaborative's DSM plan because it will not provide customers with any information not already provided in compliance with Commission Regulation 807 KAR 5:006, Section 6 (1). In addition, the Collaborative was unable to quantify any benefits of the program as part of its cost/benefit screening.[5]

The Commission considers the December 1, 1995 application to have failed to comply with the terms of the Collaborative's Agreement and, more importantly, with the statement in our November 12, 1993 Order concerning the cost/benefit screening of individual programs. We remind the Collaborative that future DSM programs must be subjected to individual cost/benefit screening prior to submission for Commission approval.

Program Changes and Procedural Schedule

The Commission has reviewed the proposed changes to the EECR and finds that they are reasonable and should be approved. We have also reviewed the proposed expansion and modification of the CCP and find that they too are reasonable and should be approved. The Commission also finds that the schedule proposed for filing future DSM documents and reports is reasonable and should be approved.

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5 The Commission recognizes that the cost/benefit screening also showed zero benefits for Program Development and Administration, which had been combined for screening purposes with Residential Bill Redesign. However, we also recognize Program Development and Administration is a support program from which direct, tangible benefits will not likely be derived.

Program Administration

The Commission recognizes that, to a degree, the Collaborative has been in a start-up phase and learning process since the approval of the three-year DSM experiment. This is understandable and not altogether unexpected. Furthermore, the Commission recognizes that this proceeding is not the time for an in-depth review of the operation of the Collaborative. However, a number of serious questions have surfaced during this proceeding about the Collaborative's management in general and its administration of the Residential Conservation and Energy Education Program ("RCEEP") in particular.

Many of these questions concern Project Warm's dual role as the principal vendor in the RCEEP while serving as a member of the management panel overseeing the administration of the same program. Other questions relate to the manner in which Project Warm was selected to be the principal vendor for that program. While the arrangement with Project Warm has been in place since the Collaborative filed its initial application in 1993, the subsequent disclosure of managerial and operational problems in a report by EDS Management Consulting Services is cause for concern.[6]

While we expect that a number of these issues will be examined more fully in the Collaborative's process evaluation(s) which will be submitted this November as part of the review of the three-year DSM experiment, the Commission now finds that Project Warm's dual role presents a clear conflict of interest and should cease immediately. No program vendor should have a representative serving on the management panel overseeing the

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6 Attachment 1 to the Collaborative's December 1, 1995 application.

program. Furthermore, after the effective date of this Order, no vendor for any program should be selected except through competitive bidding.

Three-Year Review

The scope and depth of the upcoming three-year review is a matter that the Commission has been concerned about since the approval of the LG&E Collaborative's DSM experiment. Those concerns are heightened by the questions that have surfaced during this proceeding regarding the Collaborative's management in general and particularly its operation of the RCEEP.

It is the Commission's goal to review the operations of the Collaborative to ensure that the DSM programs which have been approved are being effectively administered and that ratepayers are receiving full value from the Collaborative's DSM expenditures. Serious questions have come to light in this proceeding regarding several aspects of the Collaborative's operation. Due to these questions the Commission finds that an independent DSM consultant with expertise in fiscal and policy management and administration will be needed to review the Collaborative's operation and processes as part of the upcoming three-year review. The Commission will select and employ a consultant under the parameters set forth in KRS 278.255. LG&E will bear the cost of the consultant and be allowed to recover the cost through its DSM cost recovery mechanism.

SUMMARY

The Commission, based on the evidence of record and the findings set forth herein, HEREBY ORDERS that:

1. The proposed changes to the Experimental Energy Conservation Rate and the Commercial Conservation Program are approved.

2. The new DSM programs, with the exception of the Residential Bill Redesign, proposed as part of the Collaborative's 1996 DSM Program Plan are approved.

3. The costs of both the changes to existing programs and new programs approved herein shall be eligible for recovery through the DSM cost recovery mechanism.

4. The DSM cost recovery charges included in LG&E's proposed tariffs, modified as shown in Appendix A to reflect the impact of excluding the cost of the Residential Bill Redesign proposal, are approved to be effective July 1, 1996.

5. The procedural schedule proposed by the Collaborative for the filing of future DSM documents and reports is approved.

6. No program vendor shall serve as a member of that program's management panel.

7. Beginning July 1, 1996, all program vendors for all programs shall be selected through competitive bidding.

8. Within 20 days from the date of this Order, LG&E shall file with the Commission its revised DSM cost recovery tariffs reflecting the decision rendered herein.

Done at Frankfort, Kentucky, this 24th day of June, 1996.

PUBLIC SERVICE COMMISSION

Linda K. Breathitt

Chairman

Vice Chairman

Robert M. Davis

Commissioner

ATTEST:

Don Mills

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE 93-150 DATED JUNE 24, 1996,

The following rates and charges are prescribed for customers in the area served by Louisville Gas and Electric Company ("LG&E"). These rates reflect the Commission's decision in this case and the changes to the Demand Side Management Balance Adjustment(s) included in LG&E's tariff filing of May 31, 1996, all to be effective with bills rendered on and after July 1, 1996. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

ELECTRIC SERVICE RATES

DSM Cost Recovery Component (DSMRC)

Residential Rate R	Energy Charge
DSM Cost Recovery Component (DCR):	0.015 ¢/Kwh
DSM Revenues from Lost Sales (DRLS):	(0.085)¢/Kwh
DSM Incentive (DSMI):	0.000 ¢/Kwh
DSM Balance Adjustment (DBA):	(0.001)¢/Kwh
DSMRC Rate R	(0.071)¢/Kwh

General Service Rate GS	Energy Charge
DSM Cost Recovery Component (DCR):	0.012 ¢/Kwh
DSM Revenues from Lost Sales (DRLS):	0.000 ¢/Kwh
DSM Incentive (DSMI):	0.000 ¢/Kwh
DSM Balance Adjustment (DBA):	0.000 ¢/Kwh
DSMRC Rate GS	0.012 ¢/Kwh

Large Commercial Rate LC	Energy Charge
DSM Cost Recovery Component (DCR):	0.005 ¢/Kwh
DSM Revenues from Lost Sales (DRLS):	0.000 ¢/Kwh
DSM Incentive (DSMI):	0.000 ¢/Kwh
DSM Balance Adjustment (DBA):	0.000 ¢/Kwh
DSMRC Rate LC	0.005 ¢/Kwh

Large Commercial Time-of-Day Rate LC-TOD	Energy Charge
DSM Cost Recovery Component (DCR):	0.010 ¢/Kwh
DSM Revenues from Lost Sales (DRLS):	0.000 ¢/Kwh
DSM Incentive (DSMI):	0.000 ¢/Kwh
DSM Balance Adjustment (DBA):	0.000 ¢/Kwh
DSMRC Rate LC-TOD	0.010 ¢/Kwh

GAS SERVICE RATES

DSM Cost Recovery Component (DSMRC)

Residential Customers Served Under Residential Gas Service Rate RGS and Summer Air Conditioning Rider

DSM Cost Recovery Component (DCR):	0.977 ¢/Ccf
DSM Revenues from Lost Sales (DRLS):	1.526 ¢/Ccf
DSM Incentive (DSMI):	0.025 ¢/Ccf
DSM Balance Adjustment (DBA):	0.099 ¢/Ccf
DSMRC Rate RGS	2.627 ¢/Ccf

Commercial Customers Served Under Commercial Gas Service Rate CGS, G-6, G-7, Rate TS, Rate T and Summer Air Conditioning Rider

DSM Cost Recovery Component (DCR):	0.266 ¢/Ccf
DSM Revenues from Lost Sales (DRLS):	0.000 ¢/Ccf
DSM Incentive (DSMI):	0.000 ¢/Ccf
DSM Balance Adjustment (DBA):	0.001 ¢/Ccf
DSMRC Rate CGS	0.267 ¢/Ccf